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SIPDIS

STATE FOR WHA/CAR LLUFTIG, EB/IFD/OMA TFORSYTH
USDA FOR DERIKSON

E.O. 12958: N/A
TAGS: EFIN ECON ETRD PREL PGOV NS
SUBJECT: SURINAME'S FOREIGN CURRENCY RATING IMPROVES, BUT NOT WITHOUT WORDS OF WARNING

REFS: (A) PARAMARIBO 684 (B) PARAMARIBO 514

Summary

¶1. (U) The credit-rating agency Standard and Poor's recently improved the outlook on Suriname's foreign currency rating from stable to positive. The agency affirmed the outlook on local currency as stable and assigned 'B-' and 'B' ratings on long term foreign and long term local currency, respectively. The short-term foreign and short-term local currency both received a 'B' rating. This improvement in Suriname's rating is, however, accompanied by a firm warning to the government to address the issue of its large arrears, revealing the precariousness of the country's economic stability. We reiterate ref B's request for a response to the Government of Suriname (GOS) on how it might resolve its outstanding U.S. debts and arrears. End Summary.

¶2. (U) Standard and Poor's improved its outlook for Suriname's rating based on the progress it has observed the government make over the past year to improve debt management practices at the institutional level, especially as it relates to external debt. The agency cites the establishment of a debt management bureau as a major achievement. This bureau's primary focus is to develop and implement a debt management strategy, maintain a central record of all government debt, give payment instructions, control debt payments, and rationalize the outstanding debt arrears. The positive outlook on foreign currency was granted in expectation of a more rigorous push for debt management improvement supported by continuing monetary and fiscal prudence. The agency states that even though it does not have sufficient information on the servicing of local debt, it has left the rating unchanged. This is in expectation that debt management improvement in external debt will have a spillover effect on local debt arrangements.

¶3. (U) But not all was positive for Suriname. According to the agency, large arrears continue to weigh negatively on the country's ratings. More specifically the agency mentions the 131 million USD in total arrears on external bilateral debt. Of these arrears 77 percent are due to Brazil and the United States (See ref A). Also mentioned are recurring arrears the government has with two Spanish banks, which amount to 20.8 million USD. The agency points to inadequate ability and in some instances a weak payment culture as reasons for the defaults. Standard and Poor's concludes that Suriname's long-term foreign currency rating is constrained by existing challenges to make full and timely payments on accumulated debt. The agency warns that if the government does not impose a proactive stance in addressing its small and recurring arrears with the Spanish banks, eliminating technical arrears, and advancing negotiations with major bilateral creditors on restructuring, the government could see the outlook revised back to stable.

Comment

¶4. (U) The improvement in Suriname's currency rating symbolizes a step in the right direction for Suriname, but it does not signal a drastic change in the country's economic health. The change should encourage the government and the Central Bank to continue improving the country's payment culture, manage government debt and safeguard the fragile monetary and fiscal stability it has achieved. Setting up a new debt management institution helped to improve Suriname's currency rating, but to maintain the rating in the coming year, it will have to use the unit in earnest to effectively facilitate debt repayment or restructuring. Standard and Poor's comments provide yet more impetus to apparent GOS eagerness to resolve its debts and arrears to the United States. We would appreciate receiving guidance requested in Ref B soonest.

BARNES

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